

IN RE: Proceeding to Establish Guidelines for an) ORDER APPROVING [✓]
Intrastate Universal Service Fund.) FINAL DOCUMENTS
) AND VACATING
) ORDER NO. 2001-954

We have examined the submitted documents and do hereby find that they conform with and are in compliance with our previous Orders in this Docket, and that they correctly reflect this Commission's intent in establishing both Guidelines and Administrative Procedures. Accordingly, we approve both of the named documents attached hereto as final documents.

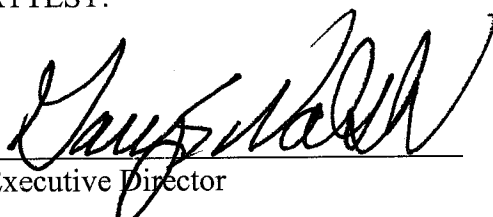
Commission Order No. 2001-954 is hereby vacated. This Order is intended to replace that Order.

This Order shall remain in full force and effect until further Order of the
Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

EXHIBIT A**GUIDELINES FOR SOUTH CAROLINA
UNIVERSAL SERVICE FUND (USF)**1. Definition of Universal Service

- The term "universal service" means the provision of basic local exchange telecommunications service, at affordable rates and upon reasonable request, to all single-party residential and single-line business customers within a designated service area.
- The term "basic local exchange telecommunications service" means for single-party residential and single-line business customers access to basic voice grade local service with dual-tone multi-frequency (DTMF) signaling (i.e., Touch-tone), access to available emergency services and directory assistance, the capability to access interconnecting carriers, access to dual party relay services, access to operator services, one annual local directory listing, and toll limitation at the request of the low income consumer or in order to prevent further losses by the carrier of last resort, for low-income consumers participating in Lifeline (subject to technical feasibility).
- As initial carriers of last resort, ILECs shall establish designated service areas that shall not be inconsistent with federal guidelines (i.e., study area for rural companies and wire center or smaller areas for non-rural companies). A new entrant may not receive USF support for serving an area that is smaller than the ILEC's designated service area.
- After Notice and an opportunity for a hearing to all affected carriers, the Commission by rule may expand the set of basic local exchange telecommunications services within the definition of universal services based on a finding that the uniform statewide demand for such additional service is such that including the service within the definition of universal services will further the public interest; provided, however, that before implementing any such finding, the Commission shall provide for recovery of unrecovered costs through the USF of such additional service by the affected carrier(s) of last resort.

2. Carrier of Last Resort

- Telecommunications carriers that assume the obligations of carrier(s) of last resort (COLRs) will be eligible to receive intrastate universal service support. Carrier(s) of last resort will be designated by the Commission. Carrier(s) of Last Resort are "eligible telecommunications carriers" as defined in Section 214(e) of the federal Telecommunications Act of 1996, but not all eligible telecommunications carriers are carriers of last resort.

- To be designated a COLR by the Commission, a carrier must meet the following requirements:
 - The COLR must be willing and able and must certify its commitment to provide the defined services supported by the State USF to any requesting customer's location within the designated service area as defined in paragraph 1;
 - The COLR must advertise the availability of such services and the charges therefor using media of general distribution;
 - The COLR must provide its services at not more than the Commission-authorized maximum stand-alone rates for the defined basic local exchange telecommunications service, and must meet all service quality and provision rules established by the Commission for universal services;
 - The COLR may satisfy its obligation to provide the defined services over its own facilities or a combination of its own facilities and resale of another carrier's services. The COLR may also satisfy its obligation to provide the defined services in whole or in part through the lease of unbundled network elements (UNEs). A carrier that provides service solely through the resale of other carriers' facilities is not entitled to universal service support.

3. Administration of the USF

- The South Carolina Public Service Commission (the Commission) shall act as Administrator for the South Carolina Universal Service Fund (USF), as set forth in Section 58-9-280(E)(1) of the South Carolina Code.
- The Administrator shall be charged with periodically determining the level of contributions required and assessing the various contributors to meet the distribution needs of the USF.
- A single USF shall supply the funding requirements for all South Carolina universal service programs. The South Carolina Interim LEC Fund, established by the Commission pursuant to Section 58-9-280(M) of the South Carolina Code, will transition into the USF when funding for the USF is finalized and adequate to support the obligations of the Interim LEC Fund.
- The data necessary to administer the USF shall be handled in a proprietary manner. Total industry aggregated data may be released, as determined by the Commission, so long as no individual company's data is discernable.

- The Administrator is responsible for assessing telecommunications carriers, distributing funds to the various qualified recipients, preparing and filing with the Commission and providing participants with the results of an annual audit of the fund performed by an independent third party, and making recommendations to the Commission pertaining to the ongoing operation and modification of the fund.
- The Administrator shall perform annual audits of the USF participants, if needed. The Administrator's audit authority shall be limited to the review of data necessary to ensure that all contributions are accurately assessed and distribution claims are valid.
- The administration of all aspects of the fund shall be done in a competitively neutral manner, as provided for in the FCC's First Report and Order in CC Docket No. 96-45, at paragraph 46.

4. Revenue Neutrality

- Effective with implementation of the USF, incumbent LECs should reduce prices for intrastate services that include implicit support for universal service to offset the gross amount received from the USF. Such price reductions shall be designed to be revenue neutral to the carrier upon implementation of the USF. In the event the Commission were to disallow the explicit recovery of incumbent LECs' contributions to the USF through an explicit end user surcharge, such prices shall only be reduced by the net amount of universal service support that is received.

5. Contributions to the USF

- Contributors to the state USF will be identified in accordance with Section 254 of the federal Telecommunications Act of 1996 and Section 58-9-280(E) of the South Carolina Code.
- All telecommunications carriers and other providers offering telecommunications services within the State of South Carolina must contribute to the USF. Companies are deemed to be offering telecommunications services in South Carolina if such telecommunications is being offered "for a fee"; and such telecommunications is being offered to an end user, or to such classes of users as to be effectively available to an end user.

- For purposes of the South Carolina Universal Service Fund, the federal definition of "telecommunications" is adopted and is defined as a "transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." Examples of telecommunications include, but are not limited to: wireless services where they compete with a local telecommunications service provided in this State; operator services; access services; wide area telephone services (WATS); toll-free services; 900 services; message telephone services (MTS); private line services; telex services; telegraph services; video and satellite services to the extent that they meet the definition of telecommunications (excludes content and one-way cable television service); pay telephone services; and wholesale services such as toll switched access, dedicated access, unbundled network elements, resale, etc.
- The phrase "for a fee" means services rendered in exchange for something of value or a monetary payment. "For a fee" includes the services offered to the general public by either a common carrier or a non-common carrier, (e.g., a private network provider). "For a fee" does not mean "for-profit."
- All telecommunications carriers offering services within the state shall contribute to the USF on the basis of their relative shares of all retail "end user" telecommunications revenues generated by and/or billed to an end user in the State of South Carolina. Payphone service providers shall contribute to the State USF based on end user revenues, and not the payphone service providers' local telephone service bills. Charges by local or long distance telecommunications carriers to Payphone Service Providers ("PSPs") for toll or access line charges are not retail "end user" telecommunications revenues, and do not serve as a basis for that local or long distance telecommunications carrier's contribution to the USF. As such, local and long distance telecommunications carriers are prohibited from passing any USF charges on to their PSP customers.
- If a contributor's annual contribution would be less than \$100, it will not be required to contribute for that year.

6. Distributions from the USF

- Distributions of monies in the USF shall be made monthly to each eligible COLR.
- A COLR shall only receive USF support for the provision of the defined service that utilizes its own facilities or leased unbundled network elements. Any USF distributions associated with resale of another carrier's services would be provided to the underlying COLR.

- The COLR may satisfy its obligations to provide the defined services in whole or in part through the lease of unbundled network elements (UNEs). However, the level of USF support such a carrier may receive shall not exceed the difference between the sum of the prices paid for the UNEs utilized in providing the defined basic local exchange telecommunications service and the established maximum price allowed to be charged to the end user customer. In addition, the UNE purchaser may recover certain expenses it incurs in addition to the cost of the UNEs themselves. A realistic surrogate for those expenses incurred by a UNE purchaser is the percentage deducted for “avoided costs” from the resale price for CLECs by an ILEC. Support provided to the UNE purchaser shall not exceed the level of support provided to a facilities-based provider. The ILEC providing non-discriminatory access to UNEs to competing COLRs shall receive the difference between the level of universal support provided to the competing COLR and the per-line support previously provided to the ILEC.
- A COLR that provides USF services using its solely-owned and constructed network will be entitled to receive the full amount of per-line USF support.
- The COLRs which provide the underlying facilities to resale competitors will be entitled to receive the full amount of per-line USF support for those facilities.
- Carriers providing services on the basis of resale (in which facility requirements are not met) are not eligible to receive USF support.
- Fund payments shall be distributed to providers of supported services based upon Commission-approved guidelines. All providers must submit reports to the Administrator in order to receive payments. The Administrator shall establish procedures to verify payment claims and may suspend or delay payments to a provider if such provider fails to provide adequate verification upon reasonable request or if directed by the Commission to do so.
- The receipt of funding from the State USF is predicated upon the cost of providing basic local exchange telecommunications service to a consumer and is not earnings based.
- The universal service funding is portable to any qualified carrier of last resort.
- The funding is associated with each individual single-party residential or single-line business line regardless of its classification as a primary or non-primary line.

7. Adjustments to Contribution and Distribution Levels

- The Commission/Administrator shall have the authority to make adjustments to the contribution or distribution levels based on yearly reconciliation, or more often if deemed necessary for efficient management of the USF, and to order further contributions or distributions as needed.
- Any excess funds not distributed during a Plan year shall only be used to reduce the following Plan year's funding contribution requirement. Any funding shortfall existing at the end of a Plan year shall be added to the contribution requirement in the following Plan year.

8. Recovery of USF Contributions

- Contributions to the USF may be recovered through an explicit surcharge on retail customers' bills. A carrier may choose not to recover its contribution. However, any carrier attempting to recover contributions to the State USF shall do so through the use of a uniform surcharge on end-user retail revenues. Any surcharge applied to end user retail revenues by the carrier shall not exceed the percentage assessed to the carrier, as determined by the Commission Staff.
- The USF Administrator shall develop an explicit uniform retail surcharge percentage to be used as a USF contribution recovery mechanism. The USF surcharge may be applied to the retail revenue billed to all end users of telecommunications. The surcharge shall be updated at least annually and shall be applied in a manner consistent with the contributions collected by the Administrator, including periodic updates.

9. Size of the fund

- The maximum size of the state USF (which includes provisions for high cost and low income support) shall be the sum of the differences, for each ILEC carrier of last resort, for each of its designated state USF support service areas, between the cost of providing basic local exchange telecommunications services less the maximum amount (as approved by the Commission) it may charge for basic local exchange telecommunications service within each area and less any federal universal service support received for serving the same area ("high cost support component"), plus the cost of any state mandated support programs for low-income consumers such as Lifeline, as well as any appropriate administrative expenses. The high cost support component is calculated on a per-line basis for residential and single-line business service, then summed over all such lines in the designated state USF support area.

- The state USF should be implemented in three or more phases. The Initial Phase of the state USF will implement up to 33% of the total state USF and will consist of two steps. The first step will consist of a reduction in intrastate access rates and the second step will consist of reductions in other rates providing implicit support for universal service.
- The first step of the Initial Phase of the state USF will include: 1) the sum of the dollars required for each ILEC to reduce its intrastate access rates from their level as of October 1, 2001 to the target level proposed by each ILEC, plus 2) the cost of any state-mandated support programs for low-income consumers such as Lifeline, and 3) appropriate administrative expenses.
- After implementation of the first step, but no later than April 1, 2002, the ILECs may file tariffs to reduce other rates providing implicit support. Such filings will be considered by the Commission and a decision rendered by September 1, 2002 for inclusion in the state USF effective October 1, 2002. The amount of these reductions for all ILECs when combined with the amount of the access reductions taken in the access step will equal no more than 33% of the total state USF. If a rural ILEC's access reductions exceed the first year's maximum ceiling of 33% for that rural ILEC, the rural ILEC will still be permitted to make its targeted access reductions. To maintain the overall ceiling, BellSouth agrees to limit its second step tariff reductions by the amount necessary to insure that no more than 33% of the total state USF is implemented in the first year.
- After the Initial Phase, on April 1 of each year, beginning in 2003, each ILEC receiving USF support may file tariff reductions and request additional USF support to fund the continued removal of implicit support contained in rates. Such filings will be considered by the Commission and a decision rendered by September 1 of the same year for inclusion in the state USF as sized each October 1. The total high cost support for each ILEC for the 2nd phase shall not exceed 66.67% of its maximum high cost support.. No ILEC shall be required to implement any portion of the state USF other than the access rate reductions that ILEC committed to in the first step of the Initial Phase.
 - The incremental high cost support amount per Residential and Business line for each phase shall be calculated by dividing the revenue reductions resulting from tariff reductions by the total universal service access lines, considering the relationship between the maximum high cost support between Business and Residence per line amount approved by the Commission. The total high cost support amount per Residence and Business line for each phase shall be the sum of 1) previous phase high cost support amount per line plus the incremental state high cost support amount per line, by Business and Residence, respectively plus 2) the incremental high cost support amount per Residence and Business line for the current phase. The total size of the fund in each phase shall be the support amount times the number of USF lines, plus the cost of any state-mandated support

programs for low-income consumers such as Lifeline, plus appropriate administrative expenses.

- The Commission-approved costs of providing universal service on a per line basis for any particular LEC should remain in place until such time as that LEC's State USF withdrawal exceeds one-third of its company-specific State USF amount. At that point, the LEC will be required to update the results of its forward-looking cost model, or in the case of rural LECs other than United Telephone Company, its embedded cost study.
- The Administrator may use estimates to establish the size of the USF on an annual basis, provided it establishes a mechanism for adjusting any inaccuracies in the estimates. Such a mechanism should allow for periodic adjustments, which will enable the Administrator to efficiently manage both the collection and distribution of the USF.
- Non-telecommunications services shall not be supported by the USF, nor will revenues received from non-telecommunications services be used to support USF.
- With the implementation of the initial phase of the State USF, those and any further access reductions made by ILECs as a result of access rate reductions implemented pursuant to a State USF proceeding by the largest LEC operating in the state shall be recovered solely through the State USF.
- The Interim LEC Fund will transition into the USF when funding for the USF is finalized and adequate to support the obligations of the Interim LEC Fund, in addition to its other obligations.

10. Designation of Eligible Telecommunications Carriers

- Pursuant to Section 214(e) of the federal Telecommunications Act of 1996 and to the FCC's Universal Service Report and Order released on May 8, 1997, state commissions must, either upon their own motion or request, designate a common carrier that meets the requirements of Section 214(e)(1) "as an eligible telecommunications carrier for a service area designated by the State commission." Upon notice to the State, the Commission shall permit eligible carriers to relinquish their designation as an eligible carrier in areas that are served by more than one eligible carrier.

- Incumbent local exchange carriers shall notify the Commission by letter, on or before October 1, 1997, of their desire to be appointed as eligible telecommunications carriers in designated service areas. The Commission shall consider the companies' requests and may render a single decision. Companies must, however, be designated as eligible before December 31, 1997, in order to receive federal universal service funds for 1998.

11. Rates

- The Commission should investigate and determine the appropriate single-party residential and single-line business rates for the State of South Carolina for each ILEC operating in South Carolina. The Commission shall allow an ILEC to charge any rate or rates determined to be appropriate or affordable for purposes of calculating state USF support for that ILEC. Such rates would represent the maximum rate that a carrier of last resort is authorized to charge an end user customer for the supported basic local exchange telecommunications service (except that discounts may be available to end users under the residential Lifeline program).
- Until such time as the Commission conducts hearings to establish appropriate maximum rates, the maximum rates for determining universal service support shall be deemed to be the COLR's tariffed rates for residential and single-line business services.
 - If funding for the state USF is subsequently reduced, COLRs should be able to increase rates an amount equal to the reduction in funding.
 - The Commission shall not require services not supported by universal service funding to be priced below their cost.

12. Low-income Consumers

- Support for a statewide Lifeline program shall be part of the USF.
- The Lifeline and Link-up programs for low-income consumers shall not be inconsistent with federal guidelines.
- A consumer's qualification for support should be determined by the Commission. The Commission shall establish narrowly-targeted qualification criteria that are based solely on income or factors directly related to income.
- Consumers meeting qualifying criteria should be free to select any eligible provider of their choice.

- The Commission shall take the necessary steps to maximize the benefit of the FCC's federal Lifeline program for qualified telecommunications customers in the State of South Carolina.

13. Discounts for Schools, Libraries, and Public and Non-Profit Health Care Providers

- The Commission finds that the same discounts for schools and libraries are adopted for intrastate as those specified for interstate rates and charges in the FCC's Universal Service Report and Order released on May 8, 1997. The Commission authorizes incumbent LECs the same intrastate pricing flexibility to bid for services to schools and libraries as the FCC has provided for interstate services in para. 483 of its Universal Service Report and Order released on May 8, 1997.
- The Commission establishes the necessary intrastate regulatory framework to enable South Carolina's public and non-profit health care providers located in rural areas, and telecommunications carriers serving such health care providers, to take full advantage of all aspects of the federal universal service program for health care services. The federal program for rural health care providers is outlined in the FCC's Universal Service Report and Order released on May 8, 1997.

**SOUTH CAROLINA UNIVERSAL SERVICE FUND
ADMINISTRATIVE PROCEDURES**

I. Definitions:

1. **SUPPORTED SERVICES:** Supported services consist of basic local exchange telephone service to all residential and single-line business customers in designated support service areas.
2. **DESIGNATED SUPPORT SERVICE AREA:** The designated support service area is defined as the geographic area eligible for state universal service support. The designated support service area is based upon a wire center for non-rural incumbent local exchange companies ("ILEC") and Sprint United Telephone Company and study area for rural ILECs other than Sprint United Telephone Company.
3. **CARRIER OF LAST RESORT:** In the context of universal service, any carrier that applies for Carrier of Last Resort ("COLR") status and receives approval from the Commission to provide the supported services to a designated support service area is eligible for high cost support per line. Carriers that provide service as a reseller are not eligible to be COLRs.
4. **HIGH COST SUPPORT PER LINE:** High Cost Support Per Line is the amount of state universal service support within each designated support service area available for an individual residential or single-line business line.
5. **HIGH COST SUPPORT:** High Cost Support is the amount each COLR receives from the South Carolina Universal Service Fund ("SC USF"). This amount is calculated by multiplying the High Cost Support per Line by the number of eligible lines served by each COLR.
6. **HIGH COST SUPPORT COMPONENT:** The High Cost Support Component is the sum of high cost support for all COLRs in SC and represents a subsection of the total SC USF.
7. **ADMINISTRATIVE EXPENSE COMPONENT:** This component consists of costs incurred by the Commission-designated Administrator of the SC USF in the administration of the SC USF, including the audit expenses of an independent third party. The sole purpose of this component is to recover Commission-approved costs for administering the SC USF.
8. **LOW INCOME SUPPORT PER LINE:** The Low Income Support per Line is the amount of state support available to eligible low income consumers and is equal to

the state-matching portion (currently \$3.50) of the Federal Lifeline credit. It is payable to the COLR serving the eligible low-income consumer.

9. FUND PARTICIPANTS: Participants in the SC USF include both those telecommunications carriers that contribute into the fund and those Carriers of Last Resort that are entitled to receive disbursements from the SC USF.

II. SC USF Components

The SC Universal Service Fund consists of:

- The High Cost Support Component
- The Low-income Support Component
- The Administrative Expense Component.
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The SC Universal Service Support is the sum of the three components stated above.

III. Contributions to the SC USF

- A. All telecommunications carriers, as defined in the Telecommunications Act of 1996, providing telecommunications service within the State of South Carolina shall contribute to the SC USF based upon their relative shares of all end user retail telecommunications revenues (both interstate and intrastate) generated by and/or billed to an end user in South Carolina.
- B. Retail end user telecommunications revenues shall be reported and filed using a reporting form developed by the Administrator ("USF Contribution Worksheet) (Attachment I). Each affiliate or subsidiary must file separately. The Form must be certified by an officer of the contributor, and is subject to verification by the Administrator. A contributor is required to submit a revised form, in a timely manner, should a reporting error be discovered.
- C. Each carrier must file on an annual basis the information necessary to allow the Administrator to calculate the carrier's contribution. These filings will be due on July 1 of each year, reporting data as of December 31 of the prior calendar year.
- D. The Administrator shall calculate the contribution factor based upon the ratio of the fund size implemented to retail end user revenues reported as set forth in this section.
- E. The Administrator will then multiply the contribution factor by each contributor's end user retail telecommunications revenues to develop its assessment. Based upon that data, each contributor's contribution will be determined for the subsequent year, and the contributor will be notified by September 1 of each year of its annual contribution. The Administrator will render monthly bills representing one-twelfth

of the contributor's annual contribution, with the first payment being due on the date specified by the Administrator.

- F. In the event that contributions exceed SC USF payments and administrative costs, the contribution factor for the following annual period will be adjusted by an appropriate amount, taking into consideration projected distributions. In the event that contributions are inadequate, the Administrator may reduce payments to recipients on a pro-rated basis and add the shortfall to the contribution requirement for the following annual period. Any payment shortfall from the previous annual period shall be paid to the affected COLRs during the period those shortfall amounts are collected.
- G. Each contributor will remit payments to the USF not later than the first of each month, beginning November 1, 2001. Late payment charges will begin to accrue by the 30th of the month in which payment is due. Late payments to the USF will be assessed at the rate of .0493% per day. The Administrator may also bill contributors for reasonable administrative expenses and interest resulting from improper filing or overdue contributions.
- H. If a contributor's annual contribution would be less than \$100, it will not be required to contribute for that year. This does not, however, exempt such telecommunications provider from submitting a completed USF Contribution Worksheet.

IV. Distributions from the SC USF to Eligible COLRs

- A. COLRs designated by the South Carolina Public Service Commission (Commission) shall be eligible to receive funds from the SC USF pursuant to the procedures set forth below.
- B. In order for a COLR to receive distributions it must provide Basic Local Exchange Telecommunications Service, at rates not to exceed the Commission authorized maximum stand-alone rates for the ILEC serving that Designated Support Service Area.
- C. Support payments shall be distributed to COLRs by the last day of each month (beginning November 2001) based on rules approved or modified by the Commission.
- D. COLRs will receive High Cost Support based upon the number of eligible residential and single-line business lines served by such COLR in a Designated Support Service Area. The amount of High Cost Support is determined by multiplying the number of eligible lines by the per line support available for such lines in the designated support service area.

- E. The SC High Cost Support per line, for Residential and single-line Business, shall be calculated based on the incumbent LEC's cost of providing basic local exchange service minus the revenues received for such services, by class of service.

In Designated Support Service Areas where more than one COLR provides local service:

1. The level of SC High Cost Support that a COLR may receive shall not exceed the difference between the sum of the prices paid for the UNEs utilized in providing the defined basic local exchange telecommunications service plus additional costs incurred by the CLEC (as provided for in paragraph 25 of SC PSC Order No. 2001-419 in Docket No. 97-239-C) and the established maximum price allowed to be charged by the incumbent LEC to the end user customer in the Designated Support Service Area.
 2. The ILEC providing nondiscriminatory access to unbundled network elements to such competitive eligible telecommunications carrier shall receive the difference between the level of the universal service support provided to the competitive eligible telecommunications carrier and the per-line level of support previously provided to the ILEC.
 3. The COLR (other than LEC) that provides the supported services using neither UNEs purchased from ILEC nor wholesale service purchased for resale will receive the full amount of universal service support previously provided to the ILEC for that customer.
- F. The SC USF will be sized as of October 1, 2001 based on access reductions made by COLRs and on October 1 of each subsequent year based on tariff reductions approved by the Commission.
- G. Low-income Support per Line shall be available to any COLR serving a customer participating in a state mandated support program for low-income consumers such as Lifeline.

V. Phased Approach to the High Cost Support

In order to properly identify and reduce those intrastate tariff rates providing implicit support to Universal Service and to allow the Commission to have proper oversight of the process, the High Cost Support Component shall be phased in over time.

The phased approach only relates to implementing the High Cost Support Component of the state USF over time. The SC USF shall be limited to no more than 33.33% of the SC Universal Service Fund in the first year and no more than 66.67% in the second year. Such total amount must include funding associated with the low-income and administrative expense components of the SC USF.

The earliest date the State USF could fully be implemented will be 10/1/2004. However, full implementation of the High Cost Support Component may actually take longer, as no COLR is required to implement the maximum percentage in any given year.

Prior to implementation of any funding over one-third of the High Cost Support for a particular ILEC, that ILEC is required to submit updated cost studies.

The implementation of the second step of the initial phase and of the remaining phases requires tariff filings by individual ILEC(s) reducing intrastate tariffed rates that include implicit support for universal service in South Carolina. The size of the High Cost Support component shall be equal to the revenue reductions realized by ILECs as the result of reducing regulated tariffed charges, as reflected in individual tariff filings.

The description for the phases is as follows:

- A. "Initial Phase" - The High Cost Support in the initial phase shall be limited to no more than one third (33.33%) of the State USF,¹ for each ILEC. The initial phase shall consist of two steps:
1. The first step will be a reduction in intrastate switched access rates. All ILECs shall implement this step at the same time.
 2. The second step will be the result of reducing other rates containing implicit support. No ILEC shall be required to participate in the second step of the initial phase. However, any ILEC electing to participate in this step must file tariffs to reduce rates and must also file detailed cost data clearly demonstrating that implicit support exists in the rates that are proposed to be reduced. The tariffs and cost data must be filed no later than April 1, 2002 and the Commission's decision will be rendered by August 1, 2002.²

¹ The limit of 33.33% is applied to the cumulative result for both steps in Phase 1 (access step and reduction of implicit support) plus the Low Income Component and Administrative Expense Component, if any.

² Such filings shall be considered by the Commission and a decision rendered. Rate Reductions approved by the Commission shall be effective October 1 of 2002, 2003, etc. The High Cost Support shall be equal to the revenue reductions as the result of reduced tariffed rates approved by the Commission.

Since the initial phase implementation of the SC USF is limited to no more than one third (1/3) of the total fund as approved by the Commission, and the first step may result in more than one third for some ILECs, in order to maintain the overall ceiling, BellSouth agrees to limit its second step tariff reductions by the amount necessary to ensure that no more than one third (1/3) of the total SC state USF is implemented in the initial phase.

- B. “Second Phase” – The Second Phase for implementation of the SC USF shall be limited to no more than two thirds (66.67%) of the total State USF, for each ILEC. During this phase, an ILEC may request additional state USF in order to make reductions in tariffed rates for services providing implicit support to the universal support services. ILECs deemed eligible to receive SC High Cost Support may file tariffs to reflect reduction(s) in tariffed intrastate rates providing implicit support to universal service in South Carolina. Companies seeking rate reductions shall also file detailed cost data clearly demonstrating that implicit support exists in the rates that are proposed to be reduced. Any such tariff filings shall be made by April 1, 2003 and the Commission’s decision will be rendered by August 1, 2003. Per line support from this phase of implementation shall be added to the per line support from the preceding phase to determine the total portable amount per line.
- C. “Subsequent Phases” – Subsequent Phases of implementation allow an ILEC the option to complete the transition to the full amount of High Cost Support for which it is eligible in each Designated Support Service Area. During these phases, starting on April 1 of 2004, and on April 1 of each subsequent year, each ILEC receiving state USF support may file tariff reductions and request additional USF support to fund the continued removal of implicit support contained in rates. Any such tariff filing shall be accompanied by detailed cost data clearly demonstrating that implicit support exists in the rates that are proposed to be reduced. The Commission shall render its decision by August 1 of that year. Per line support from this phase of implementation shall be added to the per line support from the preceding phases to determine the total portable amount per line.
- D. All ILECs shall participate in the first (access) step of the Initial Phase. However, an ILEC is not required to participate in the second step of the Initial Phase or in any other phase, but may elect to wait for a subsequent yearly phase. In no event, however, may a COLR receive more than the maximum of the amount of High Cost Support for a given designated support service area. Since ILECs’ actions are optional in both the second and subsequent phases, ILECs may have a different ending period for reaching the maximum amount of universal service support. Each time the Commission approves the removal of implicit support from an ILEC’s rates, the resulting per line support shall be added to the ILEC’s existing per line support from preceding phases in order to develop the total portable per line support.

- E. Non-ILECs designated as COLRs may petition the Commission to initiate a proceeding to implement an additional phase of the universal service support mechanism in a Designated Service Support Area.

VI. Calculation of per Line Support

- A. High Cost Support Per Line is calculated as the difference between the Commission-approved cost per line of providing the universal supported services and the sum of the following: maximum Commission approved basic local service rates within each Designated Support Service Area, the Federal Universal Service Support³ and Federal Subscriber Line Charge associated with the supported line. The High Cost Support per line is portable to COLRs, as set forth in Section IV, above. See Attachment II for an illustrative example of calculation of state High Cost Support.
- B. For the purpose of determining the applicable High Cost Support per line in each Designated Support Service Area where the fund is established in phases, the per line calculation of USF is calculated as follows:
 - 1. Initial Phase – First Step
For the first step, the High Cost Support for each Residential and single-line Business line in each Designated Support Service Area will be determined on a per line basis by calculating the total revenue reduction, resulting from reducing intrastate access rates to a composite proposed rate, as a percentage of the High Cost Support and then multiplying the calculated percentage by the High Cost Support per Residential and single-line Business line. (See Attachment III for an illustrative example.)
 - 2. Initial Phase – Second Step
The High Cost Support per residential and single-line business line for this step of the first phase shall be determined using the following steps:

³ Only the high cost loop portion of the Federal Universal Service Support is included for the rural LECs that utilized the embedded cost studies for SC USF calculations. The FCC through a series of orders in Docket number 96-45 transitioned various federal funds into one support mechanism referred to as Federal Universal Support cost recovery mechanisms, while maintaining their separate identities: high cost loop support (formerly Federal USF), local switching support, long term support, lifeline (SLC waiver and lifeline connection) & schools, libraries, and rural healthcare.

- (a) Re-calculate the High Cost Support, using the Authorized Maximum Rate, Federal High Cost Support, Federal Subscriber Line Charge, and State USF lines as of December 31 of each year.
- (b) Calculate the revenue reduction associated with reducing rate(s) containing implicit support as the percentage of High Cost Support from (a) above.
- (c) Multiply the percentage calculated in (b) above by the High Cost Support per Residential and single-line Business Line from (a) above.
- (d) Add the per line amounts calculated in (c) to the support per line developed in (1) above to determine the cumulative High Cost Support per line for this phase of implementation. (See Attachment IV for an illustrative example.)

3. Subsequent Phases

Per line support for both residential and single-line business lines shall be re-calculated each subsequent phase of implementation, in the same manner as in 2(a) through 2 (c) above and then added to the High Cost Support per single-line Business and Residence per line as approved by the Commission for the previous period, respectively. (See Attachment V for an illustrative example.)

VII. Data Requirements

- A. Each ILEC must file by August 17, 2001 such information as is required by the Commission to determine the impact of access reductions approved by the Commission and the total amount of Lifeline funding needed by the ILEC.
- B. Each ILEC must file the following data by July -1, 2002, and each year thereafter, on a form prescribed by the Commission, by Designated Support Service Area. The following data should be reported for the prior calendar year (as of December 31):
 - 1. Number of residential USF access lines served by USF Designated Support Service Area rate group.
 - 2. Number of single-line business USF access lines served by USF Designated Support Service Area rate group.
 - 3. Federal USF High Cost Support per access line for USF Designated Support Service Area.
 - 4. Authorized residential rate for each Designated Support Service Area.

5. Authorized single-line business rate for each Designated Support Service Area.
6. Appropriate subscriber line charges for (1) and (2) above.

In addition to the data above, each ILEC must also file the number of lines receiving federal Lifeline assistance as of December 31 of the previous calendar year.

VIII. Responsibilities of the Administrator

- A. The Administrator is responsible for assessing telecommunications carriers, distributing funds to the various qualified recipients, filing with the Commission the results of an annual audit of the fund performed by an independent third party, and making recommendations to the Commission pertaining to the ongoing operation and modification of the fund.
- B. The data necessary to administer the SC USF shall be handled in a proprietary manner. Total industry aggregated data may be released, as determined by the Commission, so long as no individual company's data is discernible.
- C. The Administrator shall perform annual audits of the SC USF participants, if needed. The Administrator's audit authority shall be limited to the review of data necessary to ensure that all contributions are accurately assessed and distribution claims are valid.
- D. The Administrator shall compute the universal service contribution factor for the telecommunications carriers as described in Section III, on an annual basis.

ATTACHMENTS:

- I: USF Contribution Worksheet
- II: Example of Update to SC USF High Cost Support
- III: Example of Initial Phase First Step Calculation
- IV: Example of Initial Phase Second Step Calculation
- V: Example of Second and Subsequent Phase Calculation

ATTACHMENT II

Example of Update to the State High Cost Support,

South Carolina State USF Calculation

Data as of 12/31/2001, Reported by 7/1/2002	Source	Col. A Residence	Col. B Business
1. Cost per line, approved by the Commission	III. <u>SC USF Order</u>	\$ 41.52	\$ 41.52
2. Authorized Maximum Rate	Approved Tariff	\$ 13.25	\$ 26.50
3. Federal per line Support	FCC	\$ 2.50	\$ 2.50
4. Subscriber Line Charge	FCC	\$ 3.50	\$ 6.00
5. Net State High Cost Support per Line	L1 – (L2+L3+L4)	\$ 22.27	\$ 6.52
6. State USF lines as of 12/31/2001	Company Records	11,500	2,500
7. State High Cost Support	L5 * L6	\$ 256,105	\$ 16,300
8. Total State High Cost Support per month	L7 (Col. A + Col. B)	\$ 272,405	

Example of Initial Phase First Step Calculation

South Carolina State USF Calculation

Company Specific Data	Source	Col. A Residence	Col. B Business
1. Net State High Cost Support per Line	Att. II, L5	\$ 22.27	\$ 6.52
2. State USF lines as of 12/31/2001	Att. II, L6	11,500	2,500
3. State High Cost Support	L1 * L2	\$ 256,105	\$ 16,300
4. Total State High Cost Support per month	L3 (Col. A + Col. B)	\$ 272,405	
I.A. Calculation of Step 1 of Phase I			
5. Access Revenue Reductions	Calculation	\$ 60,000	
6. % State USF implemented	L5 Col. A/L4 Col. A	22.03 %	
7. High Cost Support per line per month	L6 Col. A * L1	\$ 4.91	\$ 1.44

Example of Initial Phase Second Step Calculation
South Carolina State USF Calculation

Adjustment to the High Cost Support for 10/1/2002	Source	IV. <u>Col.</u> Residence	V. <u>Col.</u> Business
Data as of 12/31/2001 – Reported by 7/1//2002			
1. Cost per line, approved by the Commission	SC USF Order	\$ 41.52	\$ 41.52
2. Authorized Maximum Rate	Approved Tariff	\$ 13.25	\$ 26.50
3. Federal per line USF support	FCC	\$ 2.50	\$ 2.50
4. Subscriber Line Charge	FCC	\$ 3.50	\$ 6.00
5. Net State High Cost Support per line	L1 – (L2+L3+L4)	\$ 22.27	\$ 6.52
6. State USF lines as of 12/31/2001	Company Records	11,500	2,500
7. State High Cost Support	L5 * L6	\$ 256,105	\$ 16,300
8. Total State High Cost Support per month	L7 (Col. A + Col. B)	\$ 272,405	
9. State Lifeline Support per line	SC Commission	\$ 3.50	
10. Number of Lifeline Customers	Company Records	100	
11. State Lifeline Support	L9 * L10	\$ 350.00	
12. Administrative Expense, allocated to each ILEC	SC Commission		
13. State USF Support	L8 + L11 + L 12	\$ 272,755	
14. Maximum Percentage of State USF for the initial phase	Admin. Proc.	33.33 %	
15. State USF cap amount for the initial phase	L13 * L14	\$ 90,909	
16. High Cost Support per line per month from the first step	Att. III, L7	\$ 4.91	\$ 1.44
17. High Cost Support from the first step per month	L16 * L 6	\$ 56,465	\$ 3,600
18. Total High Cost Support from the first step	L17 (Col. A + Col. B)	\$ 60,065	
19. Max. Revenue Reductions available for second step	L15 – (L11+L12+L18)	\$ 30,494	
I.B. Calculation for Step 2 of phase I:			
20. Revenue Reduction as the result of reducing tariffed rate	Approved Tariff	\$20,000	
21. Revenue reduction as the percentage of the High Cost Support	L20 / L8	7.34 %	
22. Incremental High Cost Support per line for the second step	L21 * L5	\$ 1.63	\$ 0.48
23. Cumulative High Cost Support per Line	L16 + L22	\$ 6.54	\$ 1.92

ATTACHMENT V

Example of Second and Subsequent Phase Calculation
South Carolina State USF Calculation

Adjustment to the High Cost Support for 10/1/2003	Source	VI. <u>Col.</u> Residence	VII. <u>Col. B</u> Business
Data as of 12/31/2002 – Reported by 7/1/2003			
1. Cost per line, approved by the Commission	SC USF Order	\$ 41.52	\$ 41.52
2. Authorized Maximum Rate	Approved Tariff	\$ 15.00	\$ 30.00
3. Federal per line USF support	FCC	\$ 3.00	\$ 3.00
4. Subscriber Line Charge	FCC	\$ 3.50	\$ 6.00
5. Net State High Cost Support per line	L1 – (L2+L3+L4)	\$ 20.02	\$ 2.52
6. State USF lines as of 12/31/2002	Company Records	12,250	2,800
7. State High Cost Support	L5 * L6	\$ 245,245	\$ 7,056
8. Total State High Cost Support per month	L7 (Col. A + Col. B)	\$ 252,301	
9. State Lifeline Support per line	SC Commission	\$ 3.50	
10. Number of Lifeline Customers	Company Records	105	
11. State Lifeline Support	L9 * L10	\$ 367.50	
12. Administrative Expense, allocated to each ILEC	SC Commission		
13. State USF Support	L8 + L11 + L 12	\$ 252,669	
14. Max. Percentage of State USF for this phase	Admin. Proc.	66.67 %	
15. State USF cap amount for this phase	L13 * L14	\$ 168,454	
16. High Cost Support per line per month from previous phases	Att. IV, L23	\$ 6.54	\$ 1.92
17. Cumulative High Cost Support per month from previous phases	L16 * L 6	\$ 80,115	\$ 5,376
18. Total High Cost Support per month for previous phases	L17 (Col. A + Col. B)	\$ 85,491	
19. Max. Revenue Reductions available for this phase	L15 – (L11+L12+L18)	\$ 82,596	
II.A. Calculation for This Phase Tariff Reductions:			
20. Revenue Reductions	Approved Tariff	\$ 40,000	
21. Revenue reduction as the percentage of the High Cost Support	L20 / L8	15.85 %	